TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 1422 - SB 1443

January 11, 2016

SUMMARY OF BILL: Excludes, for tax years beginning January 1, 2016, income from social security benefits from determinations of total annual income for purposes of qualifying for exemption from the Hall Income Tax (HIT) for persons 65 years of age or older.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – $4,901,400

Decrease Local Revenue – Net Impact – $2,677,900

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by the passage of this bill. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes shall be applied to tax years beginning with tax year 2016, and assuming that 100 percent of HIT owed for tax year 2016 is collected no later than June 30, 2017, the first year impacted by this bill will be FY16-17. This collection pattern is assumed to remain constant into perpetuity.
- The current Fiscal Review Committee estimate for HIT collections in FY16-17 is $270,000,000. This number is assumed to remain constant in subsequent years under current law.
- According to the Department of Revenue, the proposed change regarding HIT exemptions for persons 65 years of age or older will result in a recurring decrease in HIT revenue of $7,957,246, beginning in FY16-17. The Fiscal Review Committee staff does not have access to the data and information upon which these calculations are based and cannot independently verify their accuracy.
- Based on apportionments of HIT collections for the last three fiscal years (FY12-13, FY13-14, and FY14-15), it is estimated that the state retains 64.97 percent of HIT revenue and local governments are apportioned 35.03 percent.

- The recurring decrease in HIT revenue, beginning in FY16-17, is estimated to be $5,169,823 ($7,957,246 x 64.97%) for the state, and $2,787,423 ($7,957,246 x 35.03%) for the local government.
- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in sales tax revenue for the state, beginning in FY16-17, is estimated to be $268,430 [($7,957,246 x 50.0% x 7.0%) – ($7,957,246 x 50.0% x 7.0% x 3.617%)].
- The total recurring increase in sales tax revenue for the local government, beginning in FY16-17, is estimated to be $109,539 [($7,957,246 x 50.0% x 2.5%) + ($7,957,246 x 50.0% x 7.0% x 3.617%)].
- The net recurring decrease in state revenue, beginning in FY16-17, is estimated to be $4,901,393 ($5,169,823 - $268,430).
- The net recurring decrease in local government revenue, beginning in FY16-17, is estimated to be $2,677,884 ($2,787,423 - $109,539).
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. Increases in revenue may occur if the state's population increases as a result of reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increases as a result of population changes. Due to multiple unknown factors, such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

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